



SF 82 – Inheritance Tax Phase-out (LSB1568XS)

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Fiscal Note Version – New

Description

Senate File 82 phases down and repeals the Iowa inheritance tax and qualified use inheritance tax. The phase-down begins with deaths occurring on or after July 1, 2018, with the first of nine annual tax rate reductions. The inheritance tax and the qualified use inheritance tax are repealed for deaths occurring on or after July 1, 2027.

Background

Persons inheriting all or a portion of an estate from an Iowa descendant may owe Iowa inheritance tax on the inherited value. Any inheritance tax owed is due and payable on or before the last day of the ninth month following the death.

The following is a partial list of situations in which an inheritance would not be taxed:

- If the net value of the entire estate is \$25,000 or less.
- If the inheritor is sufficiently related to the descendant. Relationships that are exempt from the Iowa inheritance tax include:
 - A surviving spouse
 - All lineal descendants (children and grandchildren), including adopted children and stepchildren
 - All lineal ascendants (parents and grandparents)
- If the property passes to a qualified religious, educational, or charitable entity.
- If the property passes to a qualified hospital, public library, public art gallery, or municipal corporation.

The tax rates applicable to inheritances that are subject to the Iowa inheritance tax vary. The listed situations and the applicable tax rate range include:

- Brothers and sisters of the deceased, or a son-in-law or daughter-in-law, 5.0% to 10.0%.
- Unrelated individuals, 10.0% to 15.0%.
- A business or other for-profit organization, 20.0%.
- Other organizations not otherwise exempt from the tax, 10.0%.

The Iowa qualified use inheritance tax applies to certain property that was benefiting from a reduced valuation at the time of the owner's death and was taxed through the regular Iowa inheritance tax at that lower value. The reduced valuation provisions are available to certain farm and other business property under federal Internal Revenue Code provisions. The qualified use inheritance tax may apply if the property is no longer subject to the use qualification.

Assumptions

- The Revenue Estimating Conference estimate for inheritance tax receipts for FY 2018 is \$86.3 million. Projections for current-law receipts for FY 2019 and future fiscal years were provided by the Department of Revenue.

- The tax phase-down and repeal first impact deaths occurring on or after July 1, 2018, and the inheritor has up to nine months after the death to pay any inheritance tax due.
- The Department of Revenue reviewed calendar year 2014, 2015, and 2016 inheritance tax returns and concluded that 39.0% of the tax remitted was associated with deaths that occurred within one year of the start of the calendar year, and 61.0% of the tax remitted was paid more than one year after the start of the calendar year.

Fiscal Impact

The projected annual reduction in net General Fund revenue associated with a phase-down and repeal of the Iowa inheritance tax and qualified use inheritance tax is provided in the Projected Fiscal Year Revenue Reduction columns of the following table. The revenue reduction will continue beyond FY 2029.

| Iowa Inheritance Tax Phase-out – General Fund Revenue Impact | | | | | | |
|--|--------------------------------------|---|--|---------|--------------------------------------|---|
| In Millions | | | | | | |
| Year | Projected Current-Law Forecast | Projected Fiscal Year Revenue Reduction | | Year | Projected Current-Law Forecast | Projected Fiscal Year Revenue Reduction |
| FY 2018 | \$ 86.3 | \$ 0.0 | | FY 2024 | \$ 125.5 | \$ -67.7 |
| FY 2019 | 89.9 | -3.5 | | FY 2025 | 134.3 | -85.8 |
| FY 2020 | 93.8 | -13.1 | | FY 2026 | 143.2 | -105.9 |
| FY 2021 | 99.5 | -23.8 | | FY 2027 | 159.1 | -133.6 |
| FY 2022 | 106.9 | -36.3 | | FY 2028 | 177.9 | -167.1 |
| FY 2023 | 116.1 | -51.0 | | FY 2029 | 196.3 | -196.3 |

Sources

Revenue Estimating Conference estimates
Iowa Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.